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NORTHERN RAILWAY OF CANADA.

STATEMENT

OF THE

PRIVATE SHAREHOLDERS' CASE.

PREPARED BY THEIR COMMITTEE

IN ANSWER TO

MR. CUMBERLAND'S MEMORANDUM.

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STATEMENT OF THE PRIVATE SHAREHOLDERS' CASE, PREPARED BY THEIR
COMMITTEE, IN ANSWER TO MR. CUMBERLAND'S MEMORANDUM.

From the statement given in the *Memorandum* prepared by the Board, it appears
that the present liabilities of the Company on capital account are as follows:—

1. First Preference Bonds	£250,000 stg.
2. Second do	283,900
3. Third do "A" series	50,000
4. Do do "B" do	100,000
5. Guaranteed Debentures of Northern Extensions	177,600
	£861,500
6. Government Lien	475,000
7. Share Capital	169,276
	£1,505,776

Of the above it is stated that the Government holds £525,000 stg.

But, in page 4 of the *Memorandum*, the Preference Capital standing in front of the Shareholders—including arrears of interest—is stated at £1,686,000 stg. The arrears of interest are, of course, chiefly due to the Government. The amount is variously stated. At the meeting of the Shareholders in Toronto, the General Manager stated it at £350,000 sterling, while, if the *Memorandum* above quoted is correct, the arrears amount to £180,224 sterling.

It is not made clear by the Order in Council of 11th May, 1859, that it was intended, by the settlement then effected, to hold the Company for interest on the Government Lien from that date, and since no stipulation appears in that order as to the payment of interest on the lien, we shall dismiss the arrears from the following calculation, assuming that it was not the purpose of the Government to insist on payment of interest until the earnings of the road became sufficient to meet it.

The Capital Account may be considered under three heads :—

1. Debenture Capital (excluding £50,000 Third Preference Bonds, B Series, held by the Government for arrears of interest)	£633,900 stg.
2. Government Lien *	475,000
3. Share Capital	169,276
	£1,278,176

It is alleged that to the above must be added, for Guaranteed Northern Extension Debentures, for which legal authority is said to have been obtained

177,600

Making a total capital	£1,455,776
Or in currency	\$7,079,909
On which the interest is	\$424,794

Without the £177,600, for which the authority is very questionable, the interest on the debt is £76,690 11s. 2d., or \$373,227.

Leaving out the Share Capital, the interest on the debt—including the Northern Extension—is £77,094 stg., or \$375,190 76.

If the earnings are sufficient to meet this interest, and leave a surplus, that surplus will be the index to the value of the stock. Or :—

If the earnings are insufficient, the value of the stock will depend entirely upon the extent to which the Government may consent to recede their claim in favour of the stockholders, and the saving that can be effected in the cost of working the road by a more economical administration of the Company's affairs.

LET US FIRST CONSIDER THE DEBT TO THE GOVERNMENT.

It is known that, in 1873, the Auditor reported that the Government claim was not worth more than \$500,000. This includes £100,000 stg. of second and third preference bonds. The late Government gave notice in the House of Commons of resolutions authorizing a settlement on that basis. The Auditor's Estimate may have been based upon insufficient information, but it was accepted by the then Government as equitable, and may be taken as an indication that a settlement of the claim may be hoped for on terms considerably short of the strict letter of the bond, and there are good reasons why such a settlement should be conceded.

The writer of the *Memorandum* goes somewhat out of the way to belittle the interest of the holders of the stock. He speaks of the shares other than those held by the municipalities and by the subscribers of £9,300 sterling as having been "a nominal issue at a margin price" (whatever that may mean) "to the contractors," and by inference as a matter quite unworthy of consideration.

* Of the £525,000 held by the Government, £50,000 is for accrued interest. This, it is hoped, may be waived, and is, therefore, omitted in the statement of the Capital Account.

It is not very material whether the stock was originally issued to the contractors or to the present holders. What is now to be considered is—1. *Do the shares represent any value?* and 2. *Has that value been affected by legislation?*

As a matter of fact, the shares were paid to the contractors in the same way and at the same rate as the bonds were paid to them—that is, at par, as a consideration for building the road. Whatever terms, therefore, may be justly used to characterize the issue of the shares, may with equal justice be applied to the issue of the bonds. If the shares were “a nominal margin issue,” so were the bonds.

We are under the impression that the shares held by the municipalities are a portion of the amount of stock which the contractors were bound by the terms of their contract to dispose of, and that they received the bonds of the municipalities in exchange for them; but, inasmuch as the books of the Company were at that time kept very much in accordance with the wishes of the contractors, this may not appear in them.

In like manner, others became shareholders by the purchase of shares that were originally issued to the contractors. Much of the right of way was paid for in stock, and it will not, we suspect, be denied that the iron with which the road was first laid, as far as Barrie, was paid for to a great extent, if not wholly so, with contractors' stock. This is the stock now held in the United States.

This vindication of the share capital from the epithets “bogus,” “fictitious,” “nominal,” &c., has been made necessary by the studied attempts of the writer of the *Memo. randum* to belittle the interest of the shareholders, by the remarks of the General Manager at the Toronto meeting, and by the misapprehension of many persons as to the circumstances under which the stock was originally issued, and the manner in which it came into possession of private holders.

It seems necessary in this place to consider what is implied by the word “*Company*,” which is so frequently used by the writer of the *Memorandum*. Usually that word is understood to imply the shareholders as quite apart from the bondholders; but in this instance it appears to have been used in quite a different sense; and where the writer of the *Memorandum* speaks of the interests of the “*Company*,” he evidently means something quite different from the interests of the shareholders.

It may be true that the Company, using the word in its ordinary sense, is hopelessly insolvent, and that it was very far gone in that direction when the Act of 1859 was passed; but it may reasonably be asked how far has the possibility of making the property worth something to the original proprietors, been impaired by legislation assented to in the interest of the public at large. If it can be shown that the legislation, approved and promoted by the Government of the day, has had the effect of sacrificing the interests of the shareholders in order to promote the convenience of the public, that fact should—in equity—be taken into account in any further adjustment of the relations of the stockholders with the Government lien.

THE NATURE AND EFFECT OF THAT LEGISLATION MAY, THEREFORE, BE BRIEFLY CONSIDERED.

It has been suggested that when the Legislation of 1859 was effected, the shareholders had become bankrupt through their own mismanagement of the property, and princi-

pally in consequence of their having accepted incomplete and imperfectly constructed works from the contractors. This is hardly just. The works were constructed under the supervision of an engineer who was imposed upon the Company by the Government of the day, and the settlement of the contractors was made upon his certificate. If the works were then in such an incomplete or imperfect state that their early reconstruction was necessary, it was the fault of the engineer whom the Government of the day had nominated.

The Act, 22 Vic., Cap. 88, passed in 1859, and confirmed by the Act, 23 Vic., Cap. 105, while settling the terms upon which the claim of the Government should be postponed in favour of new capital, gave to the holders of first and second preference Bonds the same right to vote as the shareholders. The power thus given to the creditors of the Company of controlling its affairs, is not limited to the time during which the interest on their mortgages or any part of it remained unsatisfied, which would have been reasonable enough, but it is given in perpetuity, *a circumstance unexampled in the history of Railway Legislation*, and in striking contrast with the course pursued towards the shareholders of the Grand Trunk. The effect of this has been to take all semblance of control out of the hands of the shareholders, and to place it unconditionally and absolutely in the hands of parties whose interest in the economical working of the line ceased so soon as the surplus earnings became sufficient to satisfy the interest in their Bonds.

It may be true that "by usage the Government holding has been recognized by two seats (in the directory) representing the Dominion lien," but practically these seats as well as those held by representatives of the Municipal Stock, have invariably been occupied by persons who have been more the representatives of the Municipal and Commercial interests of the locality, than of any hope or design to make the Government lien, and the stock standing behind it worth something. As a rule their personal interest has been nil. There can indeed be little doubt but that they have been influenced by the conviction that the interests they are supposed to represent, have long since been hopelessly ruined.

Such a settlement as this was hardly reasonable, and it may be deemed a fair matter for consideration, whether if it can be shown that the property is now capable, under economical management, of meeting its liabilities, the control should not revert to the proprietors, who may be considered as *holding an equity of redemption*, upon their showing that they have a reasonable hope of meeting their liabilities, and that they can pay off such of their debenture capital as may be held by parties who object to surrender the franchises to which it entitles them.

It has been suggested that the shareholders could be effectually disposed of by a foreclosure since there are mortgage bonds outstanding, upon which interest has not been paid. Perhaps such a course of proceeding will be tried. It would be in strict accordance with what has preceded it. It is true, we believe, that the managers have failed to pay interest on some of the bonds, but we shall be able to show that that failure *has not been on account of deficient earnings, but of misappropriation of funds*.

When the Acts above referred to deprived the shareholders of all control over their property, and when the creditors accepted the position assigned to them by those Acts, they became in effect the *trustees for the proprietors, and in equity accountable for the*

manner in which they administered that trust. If, therefore, the threatened foreclosure is attempted, the shareholders may consider the expediency of a defence, which, if it did nothing else, might become the means of making clear a good deal that is now obscure as to the manner in which the earnings of the property have been disposed of.

IT IS NOW NECESSARY TO REFER TO THE LEGISLATION OF 1868, which proceeded upon the petition of the parties who, under the previous Act, had assumed control of the Company's affairs. The 31 Vic., cap. 86, authorized the Company to re-open the capital account, and to place a further sum of £150,000 sterling in front of the Government lien, and, of course, in front of the stock. In so far as obtaining the means of capitalizing overdue interest was concerned, there could be no objection to this new issue, though, in stipulating for the payment out of it of £50,000 of the overdue interest on the Government lien, the Government hardly acted in a generous spirit towards the shareholders. *It is quite otherwise, however, with reference to the bonds issued for the building of new elevators,* which have been constructed on so extensive a scale, and of so expensive a character, as to make a return of interest on their cost entirely out of the question—especially as they were paid for by a most improvident sale of bonds to the contractor, who, when he made his bargain, was a Director.

The allegation that this expenditure was necessary for the profitable working of the line cannot be sustained. The business of storing grain during considerable periods is not necessarily the business of a Railway Company; and the provision of appliances for doing such business on an exceptionally expensive scale, by a Company alleged to be insolvent, and unable to pay interest on its bonds, can not be justified on any business principle. Would such an undertaking have been entered upon if it had been likely to interfere, in the most remote degree, with the payment of interest on the bonds held by those who controlled the affairs of the Company?

The creation of this new debt, therefore, was adverse to the interests of the shareholders, and was only necessary, as the writer of the *Memorandum* truly says, "in the public interest,"—meaning by that public, the grain-dealers of Toronto. If in that interest such an expenditure was desirable, and such as the Government of the Dominion deemed it necessary to satisfy, then the shareholders should receive some compensation.

But the most unfortunate legislation for the shareholders is that of 1871 and 1872. By the 34 Vic., cap. 45, authority was given to the Company to lease the Northern Extension lines; but it was expressly provided, by section 3 of that Act, that no liability should be thereby created that would take precedence of the Government lien, or, by inference, of the share capital. But, notwithstanding this, an agreement was entered into with the proprietors of the Extension lines, afterwards sanctioned by the Act of 1872 (35 Vic., cap. 66), which assumes to create a further preference liability of £177,600 sterling—thus effecting, by a side-wind, that which the promoters of the Act did not dare to propose openly. Such legislation would not be allowed to prevail against the rights of the Crown; but whether it was advisedly sanctioned by the Government, as being in the public interest, or the result of an oversight, it is not likely to be contested or repudiated. It is no more than reasonable, therefore, that the creation of this new liability should not be allowed to militate against the value of the stock.

Notwithstanding the large expenditures that have been made on this Railway under the present management, partly and largely out of New Capital, but also very largely out of surplus revenue, it is now alleged that a necessity has arisen for a further large expenditure. Of course, "in the public interest," and "for the promotion of expanding trade."

This necessity is considered in the Memorandum under two heads :

1st. *Change of Gauge.*

2nd. *Additional Equipment and Works.*

IT MAY BE OBSERVED WITH REGARD TO THE FIRST, that no necessity for a change of gauge has been made out. To justify such an expenditure as the proposed change involves, it should be shown that there would result a natural interchange of traffic with connecting lines. If such a result were probable, it might be exemplified by reference to what took place before the break in the gauge was made by the changes on the Great Western and Grand Trunk Railways. These changes are very recent. There is no evidence that any important interchange took place before that date, and we apprehend that if a return were made of the amount, the figures would be exceedingly small.

Nor is this surprising. The nature of the traffic in the Northern is such that there is very little probability that any considerable portion of it will be carried by rail beyond Toronto.

Timber, which forms one great item, will inevitably be rafted at Toronto ; and the great bulk of the sawn lumber will as certainly be shipped at the same place, chiefly to Oswego.

Then as to grain, if it is likely to go forward to any great extent by rail without transhipment, *of what use are the existing elevators*, or what necessity is there for building new ones ? There never has been any tendency to forward the grain arriving at Toronto by railway either east or west. It is almost exclusively the property of Toronto grain dealers, and is mainly stored at Toronto, either for local use or for Spring shipment to Oswego.

Again, it is notorious that imported and manufactured goods for the supply of the country, served by this railway, are almost exclusively purchased in Toronto.

Looking therefore at the question of change of gauge, as a matter affecting the profits of the Company, there is no necessity for such a change. On the contrary, the proposed expenditure would be most unwise, inasmuch as it cannot add one penny to the earnings of the line, and might have the very opposite result, for it is notorious that when there is an interchange of traffic, the shorter line invariably suffers in the deterioration of its rolling stock on the longer lines, and from other causes. *It is the true interest in short of such a line as this to keep its stock at home.*

But we by no means desire to assert that the change is not desirable as a matter of public policy. On the contrary, we believe it is most desirable that all the railways in Canada should have the same gauge. This is especially desirable in a military sense, so that in case the public peace is disturbed—as it was by the Fenian troubles of 1866—or in case of war, all the railway-carrying stock in the Dominion may be available on all the railways. But we cannot find in this any reason for requiring the shareholders of the Northern who

built their road—much against the opinion of their professional advisers—on the gauge required by the general law of Canada, then in force—to submit to an expenditure that will ruin all hope of their property ever becoming worth anything.

THE PROPOSED ADDITION OF ROLLING STOCK—if necessary at all—is only necessary for the equipment of the extension lines with which the managers have been allowed to encumber the concern ; and this equipment it will be time enough to supply when the leased extensions have been completed by their promoters, in accordance with the agreement.

The statements as to the requisition for cars, which it is alleged the Company has been unable to supply, have but little value. It is no new thing for the shippers—as is suggested by the author of the *Memorandum*—to make requisition for double the number of cars they are likely to load. This practice is as old as the road itself, and such imaginary requirements would be speedily cured by a rigid collection of demurrage.

Before attaching much consequence to the alleged wants of the grain trade, it would be well to know whether grain has, as a rule, been promptly removed from the cars on their arrival at Toronto, and whether the cars of the company have been frequently used for storage purposes rather than for purposes of transport.

The annual report for 1873 does not contain the statistical statements of the Company's operations necessary for forming a just estimate as to the degree of economy with which the rolling stock of the Company has been used. It is not stated whether the omission of these returns has been authorized, but it is certain that their absence, whether designed or not, is an insuperable bar to any satisfactory determination respecting the sufficiency of the stock now on the line. Such information as is available goes far to justify the opinion that the proposed augmentation is not a real necessity.

It is stated as one of the reasons for not moving grain more rapidly away from the local depots, that the Company's "Elevator and storage capacity in Toronto is totally inadequate to the trade." This might have some force if it were desirable that the Company should act as *warehousemen* as well as *forwarders*, but the expediency of so acting may reasonably be questioned, and we believe it should not assume to do so beyond what is necessary for affording reasonable time for the removal of the goods carried by it. It is absurd to suppose that the Company is under any obligation to furnish storage for all the grain produced in the country through which it passes ; much less can it be expected to find winter storage for *foreign grain* arriving at Collingwood.

THE CONSTRUCTION OF SIDINGS for the accommodation and private use of millowners appears to have absorbed a large share of the Company's means, and the supply of this kind of service appears to have been extended to the leased lines. It is now alleged that the Company must expend more capital for similar purposes. According to the statements which accompany the Directors' Report for 1873 (page 28), nearly eight miles of sidings have been constructed for the sole accommodation of various mills along the line. We are told in the *Memorandum* that the Directors now propose to expend some \$18,000 or \$19,000 of additional capital on this service, for which no reason is assigned beyond the requisition of the millowners. It is submitted that such an expenditure by a company alleged to be bankrupt is wholly unjustifiable.

FOR THE REASONS ABOVE STATED, IT IS BELIEVED THAT NO NECESSITY HAS BEEN MADE OUT FOR THE RAISING OF NEW CAPITAL

It is quite certain that if the Government determines to maintain its lien in the Company's property to its full extent, and to permit the management of that property to remain as it now is in the hands of those who have no direct interest in the provident administration of its affairs, then the shares may be considered worthless. And it is also clear that under such management as has prevailed during the past eight years the Government lien will be equally so. But if the Government, in consideration of the manner in which the shareholders have been sacrificed to public policy, will consent to modify its claims to such an extent as the equities of the case will justify, it can be shown that both the shares and the lien may become, under a judicious management of the concern, of considerable value.

IN ORDER TO SHOW THIS, IT IS NECESSARY TO CONSIDER THE QUESTION OF WORKING EXPENSES.

The writer of the *Memorandum* (page 7 and 9) considers that 62½ per cent. of the gross earnings "is an economical average standard for the working expenses of a Canadian railway"; and in support of this he cites the expenses of the GRAND TRUNK, which he says were 73 per cent., and of the GREAT WESTERN, which are stated at 67 per cent. But he omits all reference to the working expenses of the Northern in former years, especially in 1869, when the working expenses are stated as having been 50.37 per cent., or in 1870, when they are stated at 58 per cent., though the earnings in the former year were only \$671,076—not much more than two-thirds of what they now are—and in the latter year, \$733,567.52, or about 18 per cent. less than they were in 1873.

To the conclusions arrived at by the author of the *Memorandum* as to what may be considered economical working expenses, we must take exception, and propose to show that the examples cited have no value. A large proportion of the Grand Trunk Railway extends through territory that is quite unproductive, and cannot yield sufficient revenue to pay working expenses; its most productive portion is always in competition as to through traffic with lines of railway more favourably situated, and during the open season it is in competition, both as to freight and passengers, with the Lake and River Navigation. The Great Western Railway is, as to its through traffic, in active competition with other lines; and, as to its local traffic, it is in competition, especially at London, with the Grand Trunk. It is, moreover, encumbered by unprofitable branches and connections. The main line of the Northern has scarcely any competition to contend with, and every mile of it passes through a highly productive and well settled country, while, at its northern terminus, it receives tribute from a vast Lake region.

It is evident that the per centage of gross earnings necessary for working any line of Railway must depend on the amount of traffic available, and the rates that can be charged for carrying it, and since the Northern Railway by the shewing of the *Memorandum* is *overburthened with business, and is not exposed to competition*, it follows that it should be able to work its traffic at a much lower rate than the traffic of either of the Railways above referred to can be worked at. Hence the comparison with them is fallacious, and there is no reason to doubt but the traffic of the main line, i. e. from Toronto to Collingwood, could be worked for 50 per cent. of the gross revenue now attainable.

THIS WE BELIEVE CAN BE PROVED FROM THE PAST TRANSACTIONS OF THE COMPANY, as we shall now proceed to shew.

It has already been said that, putting aside the overdue interest on the Government lien and the share capital, the total interest for which it is necessary to provide, including the liabilities in connection with the Northern Extension lines, is \$375,190.76.

The earnings of the line in 1873 are stated by the Directors to have been \$901,811.00. If, therefore, the working expenses can be reduced to 58½ per cent. of the earnings, a point will have been reached at which the shareholders may consider they have touched bottom.

It has also been shown that in 1869, when the earnings were 25 per cent. less than they now are, the working expenses were only 50½ per cent. of the gross earnings; and that in 1870, when the earnings were 18 per cent. less than they were in 1873, the working expenses, according to the Directors' Report for the year, were only 58.08 per cent.

The increase in the cost of working a Railway due to the increased cost of labour and supplies has not been greater since 1870 than the increased earnings of the road would fully compensate. *If, therefore, the present Management were to exercise as much economy now as they did in 1870, the shareholders could—with the exception of the overdue interest on the Government lien—look their liabilities full in the face.* And if, by the exercise of such economy as might reasonably be expected on the part of *persons directly interested*, a saving, as compared with the ratio of 1870, to the extent of \$50,000 could be effected, they would receive interest on their investment. The probability of such a result can, we think, be made out with sufficient clearness to justify them in seeking permission to resume the management of their property. But to enable them to make such financial arrangements as might be necessary to satisfy the claim of the Government, it would be necessary that they should be able to show such a margin as would induce capitalists to take up the new stock that it would be necessary to issue.

Going back a decade in the history of the Company, we find that, in 1864, the earnings were \$467,266—being equal to \$4,866 per mile on 96 miles, in which the Barrie and Bellewart Branches are included. In that year, the working expenses were \$244,144, or 54 per cent. of the gross earnings.

In 1873, as above stated, the earnings were \$901,811, or \$5,933 per mile on 152 miles—in which mileage all branches and extensions are included. But the *working expenses* absorb 65 per cent. of the gross earnings; while a large sum is stated to have been expended on capital account, which brings the whole expenditure up to \$704,824, or *more than 78 per cent., on the gross earnings.*

It will at once occur to any one familiar with railway management that on a line free from serious competition, and in which paying rates can be had for the business done, an increase in the revenue from \$4,866 to \$5,933 per mile should have carried with it a reduction in the percentage of the gross earnings necessary for meeting the working expenses. But we find that, instead of a reduction, there has been an increase in the proportion of earnings absorbed by the cost of working, from 54 to 65½ per cent.

The reason for this is not far to seek. It may be found in a contrast between the charges for services not necessarily greatly affected by increased traffic, as they appear in the respective Reports for 1864 and 1873. Some increase it was reasonable to anticipate; but on examination of the items which go to make up the totals charged under the heads of "Terminal Station Services," "Miscellaneous Charges," and "General Charges," in

each of the years referred to, it will be obvious *that there has been a most improvident expenditure of money.*

Exception may fairly be taken to placing so large a sum as \$8,383 under the head of "Contingencies," to expending \$11,023 for stationery, and to the expenditure of \$6,000—lacking 32 cents—for travelling expenses.

So, also, we may ask, why it was necessary, at a period when there appears to have been no legal contention in which the Company was interested—at least no mention is made of such contention in the Directors' Report—to expend \$8,853 under the head of "Legal and Parliamentary Expenses," a service for which \$2,147 was sufficient in 1864.

The charge of \$18,809 for interest and discounts is especially objectionable. This charge appears to have arisen in connection with a loan obtained for the construction of new works, and for obtaining equipment partly, if not chiefly, for the Northern Extension. The money appears to have been raised at improvident rates, and it is clear that the engagements which made such a loan necessary ought not to have been undertaken. The following comparative statements will give a general idea of how these expenses have increased.

SCHEDULE I.

Comparative Statement of the Cost of Working and Management in 1864 and 1873.

	1864.	1873.
Maintenance of roadway.....	\$43,469 24	\$129,283 78
Works and buildings	12,532 89	22,601 51
Motive power, machinery and rolling-stock	61,656 60	103,808 30
Train service.....	31,144 45	74,718 73
Way station service	13,126 29	31,087 22
Terminal station service	18,999 54	47,749 74
General supplies.....	32,194 62	89,894 06
Miscellaneous charges	16,516 66	61,658 68
General charges.....	14,504 08	29,221 88
Exceptional charges.....		34,568 31
	\$244,144 37	\$624,592 21

Per cent. of gross earnings	54.1	69.2
Per train mile	cents 68.3	114.6
Per mile of road worked	\$2516 95	\$4109 16

Increased cost per train mile.....	111.8 per cent.
Increased cost per mile of road	63.2 per cent.

	1864.	1873.
Earnings per mile of road work.....	\$4,804	\$5,932
Increased earnings per mile	23.5 per cent.	

SCHEDULE II.

Comparative Statement of such Expenses as are not necessarily increased in proportion to the amount of Traffic.

	1864.	1873.
Office expenses	\$5,256 43	\$8,313 74
Contingencies.....	1,427 09	8,383 83
Travelling expenses	302 50	5,999 68
Agencies and Commissions		8,022 84
Stationery and Advertising	2,547 61	11,023 42
London Agency	1,703 36	2,433 32
Legal expenses	2,147 24	3,861 22
Parliamentary expenses		4,992 45
Direction	5,680 74	10,003 24
Auditors	600 00	1,220 00
Postage and Telegraphs	463 35	1,226 90
Water and Gas, Head Office.....	726 07	2,033 14
Interest and discount	1,147 51	18,809 76
Way station service	13,126 29	31,087 22
Terminal station service.....	18,999 54	47,749 74
	\$54,127 73	\$165,160 50
Per centage of gross earning.....	11.5	18.3
Per train mile.....	cents 15.18	26.13
Per mile of road worked	\$558 00	\$1,086 51

GENERAL SUMMARY.

I. Considering then :—

1. That the original works were constructed under the supervision of an engineer nominated, and imposed upon the Company, by the Government of the day.

2. That the Company's contractors were settled with, the works taken off their hands and the money derived from the Government aid, paid them upon the certificate of the engineer so appointed, who certified, that the contracts which he had previously assured the Company and the Government, were sufficient for all purposes, had been faithfully fulfilled.

3. That the disastrous state of the Company's affairs, prior to 1859, notwithstanding the assurances and certificate of the Government engineer, was mainly due to the faulty construction of the works, and to their insufficiency.

4. That the original shareholders raised the money for preliminary expenses, without which, a work of great and unquestioned public utility would not have been initiated for many years ; and that they have not, for a period of twenty-two years, received any return whatever upon their investment.

5. That the engineer appointed, as above stated, represented to the shareholders that the whole cost of road, with sufficient equipment, would not exceed £593,407, currency, or \$2,373,628.

6. That the Government lien in the property of the Grand Trunk Company was placed behind the share capital of the concern :—

IT IS SUBMITTED THAT THE SHAREHOLDERS WERE, EQUITABLY ENTITLED TO A MORE FAVOURABLE CONSIDERATION AT THE HANDS OF THE GOVERNMENT THAN THEY RECEIVED WHEN, IN 1869, ALL CONTROL OVER THE ADMINISTRATION OF THEIR AFFAIRS WAS TAKEN AWAY FROM THEM.

II. Considering also :—

1. That the Legislature of 1859–60, removed the control of the property from the shareholders, and placed it in the hands of their creditors, without providing that it should be returned to them when the lawful claims of the creditors had been met.

2. That, as a consequence of such legislation, the road has been managed by the representatives of bondholders who, for many years, have had no interest in its economical management.

3. That in assuming the management of the property, the creditors accepted the position of trustees—

4. That the Government allowed the shareholders to retain their franchise.

IT IS SUBMITTED THAT THE CREDITORS, AS TRUSTEES, SHOULD, IN EQUITY, BE HELD TO ACCOUNT FOR THE MANNER IN WHICH THEY HAVE MANAGED THE TRUST, AND THAT THE ORDER IN COUNCIL, UNDER WHICH THE SETTLEMENT WAS MADE, RECOGNISES THE RIGHTS OF THE SHAREHOLDERS TO RECOVER POSSESSION OF THEIR PROPERTY SO SOON AS IT BECAME POSSIBLE TO MEET THEIR LIABILITIES, AND, THEREFORE, THE RIGHT TO CALL IN QUESTION THE MANNER IN WHICH THE TRUST HAS BEEN ADMINISTERED.

III. Considering moreover :—

1. That while the creditors have controlled the management of the property, the Government, at their instance, has assented to legislation which may have been for the public interest, but which has certainly had the effect of making the satisfaction of the Company's debts more difficult.

2. That under the authority of the legislation so promoted and assented to, preference capital, to the extent of £327,600, sterling, has been added to the Company's liabilities.

3. That in addition to the preference capital so added to the Company's liabilities, the management has abstracted nearly one million of dollars (\$996,251) from the surplus earnings of the property, and applied it to works of doubtful utility, admittedly not necessary as working expenses, and said to be properly chargeable to capital.

4. That during the ten years ended in 1873, the earnings have increased from \$4,804 to \$5,932 per mile per annum, including in each case all branches and extensions.

5. That during the same period the proportion of the gross earnings absorbed in working expenses has increased from $54\frac{1}{10}$ to $65\frac{4}{10}$ per cent.

6. That it is an admitted principle in railway economy that all other things being equal and under the same tariff, the per centage of earnings necessarily absorbed in working expenses, will decrease with the increase of such earnings.

7. That from the time the property was first able to pay interest on the debt held by the controlling interest, until now, there has been, with the exception of one year, a continuous increase in the proportion of earnings absorbed by working expenses.

8. That so soon as it became difficult to absorb that portion of the earnings not necessary for payment of interest on the debenture debt in working expenses, the surplus forced upon the managers by the prosperity of the concern, has been applied to the construction of new works of doubtful necessity, or absorbed in unprofitable undertakings.

9. That the details of expenditure in so far as they can be ascertained from the manager's published statement (*all other information having been refused by him to the shareholders' committee*), indicate an unreasonable increase in items not necessarily greatly increased by increased business.

10. That additional mileage to the extent that has taken place in this case, does not add proportionally to the cost of management in working.

11. That during the period in which the circumstances above recited have been transpiring, the Government have alone had the power to enforce a better administration of the property ;

12. That the shareholders, whose franchises, owing to the act of the Government could not avail to improve the constitution of the management, were justified in believing that the Government would, for the protection of the large interest held in the property by the country, exercise their power for the prevention of improvident management.

IT IS SUBMITTED THAT THE MANAGEMENT OF THE TRUST HAS BEEN *UNWISE AND IMPROVIDENT*. THAT THIS IMPROVIDENT MANAGEMENT HAS BEEN INTENTIONAL, AND HAS TENDED TO IMPAIR THE VALUE OF THE GOVERNMENT LIEN AND THE SHAREHOLDERS' INTERESTS. THAT THE TRUSTEES CAN HAVE NO JUST CAUSE FOR COMPLAINT, IF THE CONTROL OF THE PROPERTY IS TAKEN OUT OF THEIR HANDS, AND THAT THE SHAREHOLDERS ARE ENTITLED TO THE AID AND SYMPATHY OF THE GOVERNMENT IN THEIR EFFORTS TO RECOVER THE CONTROL OF THE PROPERTY BY THE LIQUIDATION OF AS MUCH OF THE LIEN HELD BY THE DOMINION, AS UNDER THE CIRCUMSTANCES HEREIN RECITED, THE GOVERNMENT MAY DEEM IT EQUITABLE TO AGREE TO.

IV. Considering, moreover:—

1. That, in addition to the capital raised, and expended under the legislation of 1859, for the reconstruction of the Company's works, there has been expended up to the present time, \$1,239,751 on capital account.

2. That this expenditure has been in excess of more than a liberal expenditure for working expenses.

3. That it is alleged by the management that all necessary renewals of way and works, and the necessary additions to equipment have been liberally provided for.

4. That no evidence has been offered as to any necessity for the proposed change of gauge.

5. That the present gauge was adopted in compliance with the law, and in opposition to the opinion of the proprietors and their professional advisers ;

6. That additional equipment of rolling stock, if necessary at all, is only necessary in consequence of improvident and unnecessary engagements entered into, with the consent of the Government, to serve what is said to be a public interest, and for the development of new territory incapable of affording profitable traffic for a railway.

IT IS SUBMITTED THAT THE INCREASE OF CAPITAL PROPOSED, AND ALLEGED BY THE MANAGERS TO BE REQUISITE, IS UNNECESSARY, AND THAT IT WOULD BE UNJUST TO PERMIT ADDITIONAL PREFERENCE CAPITAL TO BE PLACED IN FRONT OF THE SHARE CAPITAL.

V. And, lastly, considering,

1. That the *preference Debenture* capital as settled by the legislation of 1859-60, amounted to only £533,900 sterling, bearing interest at 6 per cent.

2. That this amount would have been largely reduced, if the Government had in accordance with the provisions of the Acts of those years, 23 Vic. Cap. 105, sec. 3, sub-sec. 7, reduced the mortgage bonds to the amount which the company actually received for them in cash.

3. That the arrears of interest would have been largely reduced if the Government had exercised their powers, and prevented the application of surplus revenue to capital account, which ought to have gone to the payment of interest.

4. That during the last eight years, the surplus earnings would have been much larger if the powers and rights of the Government had been exercised for the prevention of extravagant management.

5. That the increase of the debenture capital in excess of the amount above stated, was not necessary for the profitable working of the main line, and could not have taken place without the assent of the Government.

6. That if this unnecessary increase of capital had not been assented to, the preference debt of the company, including the capital sum of £475,000 advanced by the Government, would now amount to no more than £1,008,900 ;

7. That adding to this sum the original share capital and the arrears of interest that would have been outstanding had the surplus earnings been applied to the payment of interest, rather than to the construction of new works of doubtful necessity, the total capital would not now exceed £1,328,176 sterling.

IT IS SUBMITTED THAT THE GOVERNMENT WOULD DO NO MORE THAN EQUITY, IF IT WERE TO TREAT WITH THE SHAREHOLDERS ON THE BASIS OF BRINGING THE PREFERENCE CAPITAL WITHIN THE LIMITS STATED ABOVE BY WAIVING THE LIEN OF THE DOMINION, AND ARREARS OF INTEREST, SO AS TO PRODUCE THAT RESULT.

If the conclusions above arrived at are accepted as reasonable, the shareholders are prepared to raise, within a reasonable time, the money necessary for paying over to the Government whatever, on the foregoing equitable conditions, may be due to it; to provide funds necessary for liquidating any floating debt that may be outstanding; and for fulfilling all the liabilities by which the Company is legally and justly bound, including working the Northern Extension lines, and equipping them with rolling stock, provided the Government will consent to promote such legislation as may be necessary for increasing the share capital to such extent as may be expedient, and for vesting in them, without prejudice to the bondholders, the control over their property; and they will undertake to satisfy the Government as to their ability to carry this out.

On behalf of the Committee of Shareholders,

(Signed)

R. C. HENDERSON,
Secretary

Toronto, April 23, 1874.

BIBLIOTHÈQUE
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